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This memorandum was prepared by

[redacted] for Henry Nau, NSC,

in preparation for the Williamsburg Summit.

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MEMORANDUM

Mitterrand's OECD Speech: Is There More Than Meets the Eye?

Summary

President Mitterrand's lengthy speech on 9 May was a preview of likely French positions at the Williamsburg Summit as well as at the June EC Council meeting in Stuttgart. We find that substantively -- despite the apparent drama of the "new-Bretton Woods" proposal -- the speech offers little that is really new. Nevertheless, both the circumstances and the content suggest that Mitterrand was trying to stake out a position on the high ground. It may well be that the speech was simply an attempt to upstage the Summit and yet another in a long series of appeals by French leaders for the sympathy of the developing world. In the context of what we know of Mitterrand's current preoccupations and sensitivities, however, we believe it useful to consider the possibility that his remarks may portend more troublesome moves.

Mitterrand undoubtedly was looking for extensive press coverage and high-level government attention by choosing a reception for OECD ministers as his forum. The timing could hardly have been better calculated to enhance his image as a statesman and major summit player.* He probably also saw an opportunity to upstage the US initiative scheduled for the following evening -- the dinner for trade and finance ministers. The headlines that appeared the next day may not have been exactly what Mitterrand expected, however. Even though the new Bretton Woods proposal was essentially an updated version of various Giscardian ideas dangled before previous summits, reporters focused on it to the virtual exclusion of other aspects of what was probably intended to be a carefully balanced effort.

Throughout the speech, Mitterrand appeared to want to avoid the impression of being polemical or of giving ultimatums. Even though US economic policies have once again become a favored scapegoat for France's economic ills and have come under heavy attack by politicians speaking before domestic audiences, Mitterrand's remarks on 9 May were critical only by implication. Even the critical references were balanced somewhat with approving references to successful initiatives of other nations in which a US

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role could also be inferred -- an uncharacteristic gesture for a French leader.

On the topic of revamping the international monetary system, Mitterrand stressed that the conference he was proposing would require careful preparation under the auspices of the IMF. Whatever the reception he anticipated for the program as outlined, he clearly appreciates that such reforms could only be the work of years.

Although the US Embassy has reported that the speech was not fully coordinated among the various ministries, it may be that the principal drafter, senior presidential adviser Jacques Attali, drew on years of staff work on monetary ideas by the Bank of France and the Treasury, perhaps in the interest of preserving secrecy, perhaps in order to safeguard his bureaucratic turf. Most of the other ideas in the speech have been around for a long time and are not unique to this French government.* We do not believe that the absence of coordination and the fact that the speech seldom broke new ground necessarily signify that Mitterrand intended it to be taken as anything less than a benchmark exposition of his views.

This leaves us with the question whether there is any more to this Mitterrand exercise than pre-summit posturing. There are indications that there may be, although the most alarming possibility -- that Mitterrand is setting the stage for more dramatic gestures at (or after) Williamsburg and Stuttgart in the event he concludes he is not getting a fair hearing -- appears to run counter to attitudes he holds strongly and positions to which he has committed his personal prestige.

Mitterrand firmly rejected economic autarky and protectionism and, while acknowledging its shortcomings, spoke approvingly of the EC. In addition, he had kind words for both the IMF and GATT, and -- although his old skepticism about the efficiency of markets remains -- he made several relatively positive references to their role. Each of these points of Mitterrand's can be seen as rebutting positions advocated by leftist hard liners -- not least those within his own Socialist party -- who favor greater protectionism, diminished ties to Europe, and a policy of more nationalistic and statist assertiveness in general. The 9 May speech was quite consistent with the positions Mitterrand has taken on these issues on more than one occasion since taking office.

Nevertheless, there is a possibility that Mitterrand has reached such a level of personal frustration over France's economic problems and what he believes is a less than sympathetic hearing for France's needs among Summit and EC leaders that he might be motivated to show his displeasure -- for

* Given Attali's work as France's Sherpa, his decision to keep the drafting work basically within his own staff may have been intended to give added emphasis to the French "objection" to the US dinner on 10 May: that it was a needless addition to the Summit preparatory process, Mitterrand himself presumably having his positions well in hand.

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example, by boycotting future summits or withdrawing from the EMS. If this were the case, then the high-minded, internationalist tone of the 9 May speech might perhaps have been intended to allow Mitterrand to act with a "clear conscience." We still believe, on balance, that Mitterrand would be reluctant to take measures that risked seriously damaging France's relations with its closest allies, especially in the year of INF deployment, and that could lead to further difficulties for the French economy. We also believe, however, that there is a possibility that the French tendency to blame others for their problems could come to the fore. With Mitterrand's frustration running high over, for example, US reluctance to "compensate" France for Mitterrand's anti-Soviet stance, we believe that there is an outside chance that the apparently irrational could, in fact, happen.

Mitterrand characteristically has left himself the option to go either way. Although he twice appeared to question the usefulness of summits -- both of the Seven and the EC -- he stopped short of threatening French withdrawal. In one reference to summits, he said (emphasis ours):

I have spoken to you of European meetings, and a summit of industrialized nations is coming up; we can see on these occasions if we are on the right road, or if we are choosing anarchy and crisis rather than recovery. Each will draw the consequences he wishes, and will assess the utility of this type of gathering.

Mitterrand could merely be signaling the possibility of greater French reserve toward future summit work, with perhaps more emphasis on bilateralism. On the other hand, there is an echo of the French position on the post-La Sapiniere studies -- that only national conclusions could be valid -- and he could be setting the stage for something more serious.

The first reference to summits was more specific (emphasis ours):

And yet, as the conclusions of the working group on intervention...show, monetary coordination is clearly useful when there is market disorder and when the short-term volatility of exchange rates accelerates. Are we not in such a situation today? Haven't the Seven...affirmed their will to put in place coordinated intervention in cases when their usefulness is recognized? If not, why keep having international meetings?

By asking a question, Mitterrand left his options open. But he appears to expect some concrete action to be taken on the Versailles intervention study at Williamsburg. We know that Mitterrand and economic czar Delors are very much concerned that the dollar's current value in relation to the franc is jeopardizing their goal of reducing the balance-of-payments deficit this year (approximately 40 percent of French imports are invoiced in dollars). We do not know what kind of action might satisfy Mitterrand -- perhaps as little as an agreement to linking the Versailles study to eventual preparatory work for an IMF monetary conference -- but we suspect that this is the specific issue on which the danger of his responding to frustration with an aggressive gesture of some kind is greatest.

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